PHILIP ANGELIDES
Treasurer
State of California

September 15, 2005

Mr. Mark J.P. Anson, Chief Investment Officer
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Dear Mr. Anson:

I am writing to express my deep concern over the proposed merger of PacifiCare Health Systems, Inc. and Point Acquisition LLC, a subsidiary of UnitedHealth Group Incorporated – a transaction that I believe will be detrimental to the interests of the California Public Employees Retirement System (CalPERS) and California taxpayers. Top PacifiCare HMO executives stand to receive excessive payouts of as much as $315 million as a result of this merger, at a time when more than six million Californians are uninsured and millions of working Californians are struggling to meet the rising costs of health care for their families.

There is simply no justification for these excessive payouts – which will go to the very same HMO executives who engineered this merger, and which will ultimately be paid either by shareholders of the merged company or by consumers in the form of higher insurance premiums. I urge CalPERS to contact the management of both firms to press for removal of this excessive compensation before the merger is submitted to shareholders for approval prior to the end of the year. Unless these excessive payouts to HMO executives are relinquished, I believe that CalPERS should vote to oppose the merger.

You may remember that last year, we joined together to strongly oppose the merger of WellPoint Health Networks, Inc. and Anthem, Inc, a transaction that triggered bonuses and severance packages for top Wellpoint employees that could reach a half billion dollars. The proposed merger of PacifiCare and UnitedHealth comes from the same script: If this merger is completed by February 1, 2006, 39 top PacifiCare executives stand to receive exorbitant payouts of $215 million in accelerated stock options, $15 million in change-of-control payments, and approximately $85 million more in cash bonuses and stock if they stay with the merged company. They will reap millions whether the merger benefits shareholders and health plan consumers, or whether it hurts them.

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By its own account, PacifiCare awarded these stock options to its executives so that the company could retain their services for the long term. Now, under the terms of their compensation plan, the executives are simultaneously receiving both an immediate payout of their options, which removes the existing incentive to remain on the job, and a new round of incentive grants, cash bonuses, and stock bonuses, which we are now told are necessary to keep them on the job. This is the kind of self-serving manipulation that undermines the faith and confidence of ordinary working Californians in our treasured free enterprise system.

I am deeply concerned that shareholders like CalPERS will pay the price for this merger, along with health plan consumers. By all appearances, PacifiCare's executive compensation policies have, since 2001, been structured – by many of the same HMO executives who will receive exorbitant payouts – to encourage them to engineer a quick merger. CalPERS voted its proxies against PacifiCare's executive compensation plans in 2001 and 2005 because of concerns, among other things, about shareholder dilution and inadequate linking of pay to performance. For example, the vesting periods for executive stock options that the company touted as incentives for the long-term creation of company value also provide incentives for executives to arrange a lucrative merger. Remember, under the merger plan, these HMO executives will benefit from accelerated stock options no matter how the merged company performs. If this plan is approved, these executives will receive a reward for results yet to be achieved, and will have less of a stake in the long-term performance of the company and the well being of its shareholders.

I request that you place this matter on the agenda for the next available meeting of CalPERS. I look forward to working with my fellow board members and you to protect CalPERS' interests in this merger.

Sincerely,

Phil Angelides
State Treasurer

cc: Honorable Board Members, California Public Employees' Retirement System,
Fred Buenrostro, Chief Executive Officer, California Public Employees' Retirement System

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